

Financial Statements

CITY OF LUTTRELL, TENNESSEE

Year Ended June 30, 2015

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Mayor and City Council
City of Luttrell, Tennessee
Luttrell, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Luttrell, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Luttrell, Tennessee's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of City of Luttrell, Tennessee as of June 30, 2015, and the respective changes in its financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note K to the financial statements, City of Luttrell, Tennessee has restated its net position as of June 30, 2014 to implement Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 10, the schedule of changes in net pension liability(asset) on page 48, the schedule of pension contributions on page 49, and the notes to pension contributions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise City of Luttrell, Tennessee's financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedules of long-term debt requirements and expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of long-term debt requirements and expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

The schedules of utility rates and metered customers - sewer fund and principal officials have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of City of Luttrell, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Luttrell, Tennessee's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The script is cursive and fluid, with the first letters of "Mitchell" and "Hill" being capitalized and prominent.

December 17, 2015

City of Luttrell
P.O. Box 82
Luttrell, TN 37779
Ph. 865-992-0870
Fax. 865-992-4962

Management's Discussion and Analysis For the Year Ended June 30, 2015

The management of City of Luttrell, Tennessee (the City) presents this management's discussion and analysis (MD&A) of the City's financial condition and results of operations for the fiscal year ended June 30, 2015. This information should be read in conjunction with the accompanying financial statements. This MD&A also presents an overview of the City, including the sewer fund, known as the Primary Government. The government-wide financial statements include only the Primary Government, which is the total reporting entity.

Financial Highlights

The following are key financial highlights:

- The assets of the City were more than its liabilities at June 30, 2015 by \$6,416,409 and at June 30, 2014 by \$6,216,639.
- The City's net position increased by \$199,769 (3 percent) during the year ended June 30, 2015 and decreased by \$137,577 (2 percent) during the year ended June 30, 2014.
- At June 30, 2015 the City's governmental funds reported combined ending fund balances of \$72,024, a decrease of \$86,196 for the year ended June 30, 2015. At June 30, 2014 the City's governmental funds reported combined ending fund balances of \$158,219, an increase of \$38,999 for the year ended June 30, 2014. As of June 30, 2015, \$72,024 (\$158,219 for 2014) was unreserved and available for ongoing operations.
- At June 30, 2015 the unreserved general fund balance was \$72,024, (\$158,219 for 2014) or 12 percent (61 percent for 2014) of general fund expenditures. This demonstrates the City's fiscal discipline and will help meet unexpected emergencies and other uncertainties the City may face during the course of everyday operations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, including budget comparisons, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all the City’s assets and liabilities with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the City include the following:

- General government
- Public welfare
- Streets and highways

The business-type of activities of the City consists of sewer collection services. The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the City’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the general fund. To demonstrate compliance with the budget, budgetary comparison statements have been provided and are presented on pages 17 to 21.

Proprietary Funds – Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains one type of proprietary fund-enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City has one enterprise fund to account for sewer collection activities.

The City's enterprise fund, the sewer fund, is a major fund and is reported separately in the government-wide and fund financial statements. The proprietary fund financial statements are presented on pages 22 to 26 in the basic financial statements.

Notes to the Financial Statements – The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Internal Control and Compliance Section – This includes the accountant's report on the City's internal controls and compliance and a schedule of findings, recommendations and management responses.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded its liabilities by \$6,416,409 for the year ended June 30, 2015 and \$6,216,639 for the year ended June 30, 2014. By far, the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, water facilities, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services; consequently, these assets are *not* available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate long-term debt.

At June 30, 2015 and 2014, the City's statement of net position consisted of the following:

	<u>2015</u>	<u>2014</u>
Current assets	\$ 186,720	\$ 281,335
Capital assets, net of accumulated depreciation	6,816,613	6,289,767
Other assets	7,197	0
Deferred outflow of resources	<u>5,069</u>	<u>0</u>
	<u>\$ 7,015,599</u>	<u>\$ 6,571,102</u>
Current liabilities	\$ 87,903	\$ 78,413
Noncurrent liabilities	479,874	276,050
Deferred inflow of resources	31,412	0
Net position:		
Net investment in capital assets	6,264,205	5,972,472
Unrestricted	<u>152,205</u>	<u>244,167</u>
	<u>6,416,409</u>	<u>6,216,639</u>
	<u>\$ 7,015,599</u>	<u>\$ 6,571,102</u>

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted net position may be used to meet the obligations to employees and creditors and to help fund next year's budget.

The following is a summary of financial activities for the City during each fiscal year:

	<u>2015</u>	<u>2014</u>
REVENUE		
Program revenue:		
Fees, fines and charges for services	\$ 393,443	\$ 382,356
Operating grants and contributions	51,221	50,309
Capital grants and contributions	474,821	11,719
General revenue:		
Taxes	61,875	63,650
Intergovernmental	106,820	95,084
Interest	468	569
Pension income	2,350	0
Insurance recoveries	<u>0</u>	<u>90,755</u>
 TOTAL REVENUE	 1,090,998	 694,442

EXPENSES

General government	83,515	81,273
Highways and streets	149,879	72,223
Public welfare	95,219	71,125
Sewer	<u>562,617</u>	<u>607,400</u>

TOTAL EXPENSES	<u>891,229</u>	<u>832,020</u>
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CHANGE IN NET POSITION	199,769	(137,577)
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NET POSITION AT THE BEGINNING OF THE YEAR, as restated

<u>6,216,639</u>	<u>6,354,215</u>
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NET POSITION AT THE END OF THE YEAR	<u>\$ 6,416,409</u>	<u>\$ 6,216,639</u>
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Governmental Activities - Governmental activities decreased the City's net position by \$108,014 in 2015 and increased the City's net position by \$75,439 in 2014. The decrease in the City's net position for the year ended June 30, 2015 is primarily due to the City repaving many of the City streets. The increase in the City's net position for the year ended June 30, 2014 is primarily due to an increase in insurance recoveries and a decrease in general government expenses.

The City's main sources of revenue are from local option sales tax, local and state-shared taxes which consist of tax revenue shared by the State of Tennessee.

Business Type Activities - Business-type activities increased the City's net position by \$307,783 in 2015 and decreased by \$213,016 in 2014. The City's loss from operations was \$157,737 in 2015 and \$213,198 in 2014.

Capital Assets

The City's investment in capital assets as of June 30, 2015 was \$6,816,613 (\$6,289,767 in 2014) net of accumulated depreciation.

	<u>2015</u>	<u>2014</u>
Capital assets-net		
Land	\$ 181,955	\$ 181,955
Construction in process	258,115	20,500
Equipment	293,412	293,412
Structures and improvements	938,938	938,938
Collection system	5,180,351	5,178,419
Other plant assets	1,116,953	1,116,953
Treatment plant	3,423,994	2,911,609
Vehicles	88,439	88,439
Accumulated depreciation	<u>(4,665,545)</u>	<u>(4,440,457)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 6,816,613</u>	<u>\$ 6,289,767</u>

The major capital asset additions were as follows:

	<u>2015</u>	<u>2014</u>
Construction in process	\$ 252,115	\$ 20,500
Collection system	1,933	0
Equipment	0	11,051
Vehicles	0	35,695
Treatment plant	<u>512,385</u>	<u>4,100</u>
	<u>\$ 766,433</u>	<u>\$ 71,346</u>

Debt Administration

At June 30, 2015 the governmental fund had outstanding debt of \$359,798 (\$112,845 in 2014) consisting of the following:

	<u>2015</u>	<u>2014</u>
Capital outlay notes	\$ 359,798	\$ 112,845
Less: current portion due	<u>(59,905)</u>	<u>(55,884)</u>
Total long-term debt-principal	<u>\$ 299,893</u>	<u>\$ 56,961</u>

During the year ended June 30, 2015, the City retired \$47,607 (\$54,631 in 2014) of its governmental fund debt.

At June 30, 2015 the proprietary funds had outstanding debt of \$192,611 (\$204,450 in 2014) consisting of the following:

	<u>2015</u>	<u>2014</u>
Sewer revenue bonds	\$ 192,611	\$ 204,450
Less: current portion due	<u>(12,630)</u>	<u>(11,926)</u>
Total long-term debt-principal	<u>\$ 179,981</u>	<u>\$ 192,524</u>

During the year ended June 30, 2015, the City retired \$11,839 (\$11,355 in 2014) of its proprietary fund debt.

Additional information on debt can be found in Note F to the financial statements.

Financial Analysis of the City's Funds

As previously discussed, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund's fund balance decreased by \$86,196 during the year ended June 30, 2015, primarily due to the costs associated with building the new City Hall, and increased by \$38,999 during the year ended June 30, 2014, primarily due to increased insurance recoveries.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position for the sewer fund was \$48,580 for the year ended June 30, 2015 and \$84,217 for the year ended June 30, 2014.

General Fund Budgetary Highlights

There was an increase of \$90,348 between the original budgeted and the final amended budgeted expenditures for the general fund. This was largely due to increased capital asset expenditures.

Economic Factors and Next Year's Budgets and Rates

The City Council has approved the budget for the year ending June 30, 2016. The estimated revenue and appropriations do not vary significantly from the budget for the year ended June 30, 2015.

Requests for Information

This Management's Discussion and Analysis and accompanying financial statements and notes are designed to provide our citizens, employees, creditors and regulatory agencies with an overview of the City's finances. If you have any questions or need additional information, you may contact:

Johnny Merritt, Mayor
City of Luttrell, Tennessee
P.O. Box 82
Luttrell, TN 37779
Telephone (865) 992-0870

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Cash	\$ 105	\$ 17,423	\$ 17,528
Certificates of deposit	0	94,226	94,226
Accounts receivable, net of allowance for uncollectible accounts of \$125,000	0	39,328	39,328
Due from other governments	27,823	0	27,823
Taxes receivable	7,815	0	7,815
Net pension asset	1,701	5,496	7,197
Internal balances	77,141	(77,141)	0
Capital assets not being depreciated	352,082	87,989	440,070
Capital assets being depreciated, net of accumulated depreciation	<u>698,922</u>	<u>5,677,621</u>	<u>6,376,543</u>
	1,165,588	5,844,942	7,010,530
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow related to pensions	<u>1,104</u>	<u>3,965</u>	<u>5,069</u>
	<u><u>\$ 1,166,692</u></u>	<u><u>\$ 5,848,907</u></u>	<u><u>\$ 7,015,599</u></u>

See the accompanying notes to the financial statements.

	Governmental Activities	Business-Type Activities	Totals
LIABILITIES			
Accounts payable	\$ 3,263	\$ 4,599	\$ 7,862
Current portion of long-term debt	59,905	12,630	72,535
Other accrued liabilities	1,958	5,548	7,506
Long-term debt, net of current portion	<u>299,893</u>	<u>179,981</u>	<u>479,874</u>
	365,019	202,758	567,778
DEFERRED INFLOW OF RESOURCES			
Deferred inflow related to pensions	6,842	24,570	31,412
NET POSITION			
Net investment in capital assets	691,206	5,572,999	6,264,205
Unrestricted	<u>103,624</u>	<u>48,580</u>	<u>(31,412)</u>
	<u>794,830</u>	<u>5,621,579</u>	<u>6,416,409</u>
	<u>\$ 1,166,692</u>	<u>\$ 5,848,907</u>	<u>\$ 7,015,599</u>

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

		Program Revenue		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	<u>Expenses</u>		<u>Contributions</u>	<u>Contributions</u>
Governmental Activities:				
General government	\$ 83,515	\$ 100	\$ 9,675	\$ 0
Highways and streets	149,879	0	30,546	0
Public welfare	<u>95,219</u>	<u>0</u>	<u>11,000</u>	<u>0</u>
Total governmental activities	328,612	100	51,221	0
Business-Type Activities:				
Sewer system	<u>562,617</u>	<u>393,343</u>	<u>0</u>	<u>474,821</u>
	<u>\$ 891,230</u>	<u>\$ 393,443</u>	<u>\$ 51,221</u>	<u>\$ 474,821</u>
General Revenue:				
Taxes:				
Local sales tax				
Franchise tax				
Wholesale beer tax				
Intergovernmental				
Interest				
Pension income				
Total general revenue				

CHANGES IN NET POSITION**NET POSITION AT THE BEGINNING OF THE YEAR, as restated****NET POSITION AT THE END OF THE YEAR**

See the accompanying notes to the financial statements.

Net (Expense)Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (73,740)	\$ 0	\$ (73,740)
(119,333)	0	(119,333)
<u>(84,219)</u>	<u>0</u>	<u>(84,219)</u>
(277,291)	0	(277,291)
<u>0</u>	<u>305,546</u>	<u>305,546</u>
(277,291)	305,546	28,255
34,429	0	34,429
9,196	0	9,196
18,250	0	18,250
106,820	0	106,820
69	398	468
<u>512</u>	<u>1,838</u>	<u>2,350</u>
<u>169,277</u>	<u>2,236</u>	<u>171,513</u>
(108,014)	307,783	199,769
<u>902,844</u>	<u>5,313,795</u>	<u>6,216,639</u>
<u>\$ 794,830</u>	<u>\$ 5,621,579</u>	<u>\$ 6,416,408</u>

CITY OF LUTTRELL, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2015

	<u>General Fund</u>
ASSETS	
Cash	\$ 105
Due from other governments	27,823
Taxes receivable	7,815
Due from sewer fund	<u>77,141</u>
	<u>\$ 112,884</u>
LIABILITIES	
Accounts payable	\$ 3,263
Other accrued liabilities	<u>1,958</u>
	5,222
DEFERRED INFLOW OF RESOURCES	
Deferred tax revenue	35,638
FUND BALANCE	
Unassigned	<u>72,024</u>
	<u>\$ 112,884</u>

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2015

Total Fund Balance-Governmental Fund	\$ 72,024
Capital assets used in governmental activities are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental fund balance sheet.	1,051,004
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental fund balance sheet.	(359,798)
Some of the City's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the governmental fund balance sheet.	35,638
Net pension assets and liabilities, and the related deferred outflows and deferred inflows, are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.	
Net pension asset	1,701
Deferred outflow of resources	1,104
Deferred inflow of resources	<u>(6,842)</u>
Net Position of Governmental Activities	<u>\$ 794,830</u>

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND

Year Ended June 30, 2015

REVENUE

Taxes:

Local sales tax	\$ 34,500
Franchise tax	9,196
Wholesale beer tax	18,156
Intergovernmental	130,745
Licenses and permits	100
Other revenue	<u>20,047</u>

TOTAL REVENUE 212,744

EXPENDITURES

Current:

General government	\$ 70,500
Highways and streets	148,988
Public welfare	67,015
Capital outlay	252,115
Debt service	<u>54,882</u>

TOTAL EXPENDITURES 593,499

(DEFICIENCY) OF REVENUE OVER EXPENDITURES (380,756)

OTHER FINANCING SOURCES

Proceeds from long-term debt	<u>294,560</u>
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**(DEFICIENCY) OF REVENUE AND OTHER
FINANCING SOURCES OVER EXPENDITURES** (86,196)

**FUND BALANCE AT THE
BEGINNING OF THE YEAR**

158,219

**FUND BALANCE AT THE
END OF THE YEAR**

\$ 72,024

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2015

(Deficiency) of Revenue and Other Financing Sources Over Expenditures - Governmental Funds	\$ (86,196)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Acquisition of capital assets	252,115
Depreciation expense	(35,940)
Long-term debt provides current financial resources to governmental funds, but the issuance of debt increases long-term debt obligations for governmental activities.	(294,560)
Repayment of long-term debt is an expenditure in the governmental fund, but reduces the long-term liabilities for governmental activities.	47,607
Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental fund financial statements:	
Deferred tax revenue - June 30, 2014	(28,295)
Deferred tax revenue - June 30, 2015	35,638
Pension plan income and expense reported in the statement of activities do not result in current financial resources or require the use of current financial resources; therefore, they are not reported as income or expenditures in the statement of revenue, expenditures and changes in fund balances of governmental funds.	512
Retirement contributions made after the actuarial measurement date are an expenditure in the governmental funds, but increase deferred outflows for governmental activities	<u>1,104</u>
Change in Net Position of Governmental Activities	<u>\$ (108,014)</u>

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND**

Year Ended June 30, 2015

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Taxes:				
Local sales tax	\$ 35,000	\$ 35,000	\$ 34,500	\$ (500)
Franchise tax	10,000	10,000	9,196	(804)
Wholesale beer tax	17,950	17,950	18,156	206
	<u>62,950</u>	<u>62,950</u>	<u>61,851</u>	<u>(1,099)</u>
Intergovernmental:				
State beer tax	600	600	514	(86)
State sales tax	75,850	75,850	80,387	4,537
State income tax	2,600	2,600	1,445	(1,155)
State gas tax	29,700	29,700	30,388	688
In-Lieu of tax payments	14,900	14,900	17,212	2,312
State/federal grants	500,000	500,000	800	(499,200)
	<u>623,650</u>	<u>623,650</u>	<u>130,745</u>	<u>(492,905)</u>
Licenses and permits:				
Beer licenses	100	100	100	0
Receipts for use of facilities:				
Rents and royalties	500	500	0	(500)
Other revenue:				
Donations	43,000	43,000	19,875	(23,125)
Telephone service revenue	109	109	103	(6)
Interest	100	100	69	(31)
	<u>43,209</u>	<u>43,209</u>	<u>20,047</u>	<u>(23,162)</u>
TOTAL REVENUE	730,409	730,409	212,744	(517,665)

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND

(continued)

Year Ended June 30, 2015

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Legislative:				
Mayor and Board fees	9,900	9,900	9,975	75
Publicity, subscriptions and dues	1,350	2,961	2,361	(600)
Public relations	1,000	1,000	624	(376)
TML dues	500	500	500	0
East Tennessee Development	510	510	510	0
Mayoral election	7,000	7,000	3,292	(3,708)
Travel	3,000	5,816	5,817	1
	<u>23,260</u>	<u>27,687</u>	<u>23,078</u>	<u>(4,609)</u>
Financial administration:				
Salaries	6,000	6,000	5,314	(686)
Christmas bonus	800	900	900	0
Employee Christmas dinner	650	754	754	0
Retirement	450	450	338	(112)
Employee training	500	760	760	0
Travel	500	5,459	5,023	(436)
Telephone	1,600	1,713	1,713	0
Accounting and auditing services	4,500	4,500	6,638	2,138
Data processing services	800	800	800	0
Repair and maintenance services	300	395	395	0
Office machinery and equipment	500	500	0	(500)
Office supplies and materials	1,300	1,300	1,011	(289)
	<u>17,900</u>	<u>23,531</u>	<u>23,646</u>	<u>115</u>
City Hall buildings and grounds:				
Utilities	3,250	3,321	2,559	(762)
Other personal services	1,350	1,350	1,275	(75)
Repairs and maintenance	1,500	6,071	5,097	(974)
	<u>6,100</u>	<u>10,742</u>	<u>8,931</u>	<u>(1,811)</u>

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND

(continued)

Year Ended June 30, 2015

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Other general government:				
O.A.S.D.I. Employer's share	1,250	1,250	1,170	(80)
Unemployment insurance	10	10	9	(1)
Insurance	8,500	8,570	8,570	1
Donation - Luttrell Elem. School	600	600	250	(350)
Donation - County Library	300	300	300	0
Donation - "For the Kids"	1,000	1,000	1,000	0
Donation - miscellaneous	2,300	3,550	2,870	(680)
Volunteer fire department	5,000	5,000	0	(5,000)
Union County Rescue Squad	1,000	1,000	0	(1,000)
Legal services	500	500	175	(325)
Scholarship	1,500	1,500	500	(1,000)
	<u>21,960</u>	<u>23,280</u>	<u>14,844</u>	<u>(8,436)</u>
Highways and streets:				
Salaries	10,840	19,172	19,172	0
O.A.S.D.I. Employer's share	2,250	2,805	2,805	0
Retirement	1,500	1,500	766	(734)
Unemployment insurance	40	90	90	1
Street lighting	12,000	13,884	13,863	(21)
Repairs and maintenance	7,500	7,500	5,165	(2,335)
Operating supplies	900	900	633	(267)
Gas, oil, diesel fuel and grease	3,500	3,500	1,771	(1,729)
Vehicle parts and repairs	2,000	2,000	687	(1,313)
Equipment purchase	2,500	2,500	0	(2,500)
Street repaving	300,000	94,808	94,808	0

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND

(continued)

Year Ended June 30, 2015

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Highways and streets (continued):				
Building materials	7,500	7,500	4,760	(2,740)
Insurance	<u>4,500</u>	<u>4,500</u>	<u>4,468</u>	<u>(32)</u>
	355,030	160,659	148,988	(11,671)
Library and community:				
Utilities	5,600	5,741	5,360	(381)
Insurance	2,300	2,300	2,300	0
Repair and maintenance supplies	<u>1,000</u>	<u>1,000</u>	<u>302</u>	<u>(698)</u>
	8,900	9,041	7,962	(1,079)
Parks and recreation:				
Salaries	15,000	17,689	17,689	0
Publicity, subscriptions, and dues	17,000	17,000	9,275	(7,725)
Repairs and maintenance	14,550	24,820	23,615	(1,205)
Senior meals and trip	2,000	2,000	1,991	(9)
Parks and recreation facilities	<u>186,000</u>	<u>189,484</u>	<u>6,484</u>	<u>(183,000)</u>
	234,550	250,993	59,054	(191,939)
Capital outlay:				
General government	0	252,115	252,115	0
Debt service:				
Principal	55,435	55,435	47,608	(7,827)
Interest	<u>7,274</u>	<u>7,274</u>	<u>7,274</u>	<u>0</u>
	62,709	62,709	54,882	(7,827)

CITY OF LUTTRELL, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET
GENERAL FUND**

(continued)

Year Ended June 30, 2015

	Budget		Actual	Variance Over (Under)
	Original	Final		
TOTAL EXPENDITURES	<u>730,409</u>	<u>820,757</u>	<u>593,499</u>	<u>(227,258)</u>
(DEFICIENCY) OF REVENUE OVER EXPENDITURES	0	(90,348)	(380,756)	(290,408)
OTHER FINANCING SOURCES				
Proceeds from long-term debt	<u>0</u>	<u>0</u>	<u>294,560</u>	<u>294,560</u>
(DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES	0	(90,348)	(86,196)	4,152
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>90,348</u>	<u>158,219</u>	<u>67,871</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 72,024</u>	<u>\$ 72,024</u>

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF NET POSITION
SEWER FUND

June 30, 2015

CURRENT ASSETS

Cash	\$	17,423	
Certificates of deposit		94,226	
Accounts receivable, net of allowance for uncollectible accounts of \$125,000			<u>39,328</u>

TOTAL CURRENT ASSETS 150,977

CAPITAL ASSETS

Land and land rights	\$	87,989	
Collection system		5,180,351	
Equipment		147,590	
Other plant assets		1,116,953	
Sewer plant in operation		3,423,994	
Structures and improvements		4,925	
Vehicles		88,439	
		<u>10,050,241</u>	
Accumulated depreciation		<u>(4,284,632)</u>	5,765,609

OTHER ASSETS

Net pension asset			5,496
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DEFERRED OUTFLOW OF RESOURCES

Deferred outflow related to pensions			<u>3,965</u>
			<u><u>\$ 5,926,047</u></u>

See the accompanying notes to the financial statements.

CURRENT LIABILITIES

Accounts payable	\$	4,599
Accrued payroll taxes		5,548
Current portion of long-term debt		12,630
Due to general fund		<u>77,141</u>

TOTAL CURRENT LIABILITIES 99,918

LONG-TERM DEBT,
net of current portion

179,981

TOTAL LIABILITIES 279,899

DEFERRED INFLOW OF RESOURCES

Deferred inflow related to pensions		24,570
-------------------------------------	--	--------

NET POSITION

Net investment in capital assets	\$ 5,572,999	
Unrestricted	<u>48,580</u>	<u>5,621,579</u>

\$ 5,926,047

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF REVENUE, EXPENSES AND
CHANGE IN NET POSITION
SEWER FUND

Year Ended June 30, 2015

OPERATING REVENUE

Sewer charges	\$ 353,692
Tap fees	28,900
Installation and connection fees	<u>10,751</u>

TOTAL OPERATING REVENUE 393,343

OPERATING EXPENSES

Collection lines:

Wages - permanent employees	\$ 40,587	
Death benefit plans	1,458	
Electric	11,302	
Telephone and telegraph	1,420	
Repair and maintenance	65,259	
Operating supplies	5,454	
Uniforms	600	
Gas, oil, diesel fuel, grease	5,709	
Motor vehicle parts	7,387	
Repair parts for sewer	<u>28,484</u>	167,661

Treatment and disposal:

Wages - permanent employees	35,099	
Electric	39,997	
Water	7,125	
Telephone and telegraph	277	
Repair and maintenance-building	1,213	
Operating supplies	11,085	
Repair parts for sewer	27,496	
State application fee	<u>1,730</u>	124,022

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF REVENUE, EXPENSES AND
CHANGE IN NET POSITION
SEWER FUND

(continued)

Year Ended June 30, 2015

Administration and general:		
Wages - permanent employees	27,870	
O.A.S.D.I. Employer's share	7,922	
Death benefit plans	252	
Employee training	464	
Data processing services	2,301	
Sewer (water) meter readings	14,575	
Office supplies and materials	577	
Accounting and auditing services	4,500	
Miscellaneous	588	
Insurance	<u>11,201</u>	70,250
Depreciation		<u>189,148</u>
TOTAL OPERATING EXPENSES		<u>551,080</u>
(LOSS) FROM OPERATIONS		(157,737)
NONOPERATING REVENUE(EXPENSE)		
Interest income	398	
Pension income	1,838	
Interest expense	<u>(11,537)</u>	<u>(9,301)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS		(167,038)
CAPITAL CONTRIBUTIONS		<u>474,821</u>
CHANGE IN NET POSITION		307,783
NET POSITION AT THE BEGINNING OF THE YEAR, as restated		<u>5,313,795</u>
NET POSITION AT THE END OF THE YEAR		<u><u>\$ 5,621,579</u></u>

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF CASH FLOWS
SEWER FUND

Year Ended June 30, 2015

**CASH PROVIDED(USED) BY
OPERATING ACTIVITIES**

Cash received from customers	\$ 384,776
Cash paid to employees	(113,188)
Cash paid to suppliers	<u>(231,099)</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

40,489

**CASH PROVIDED(USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	\$ (499,817)
Principal payments on long-term debt	(11,839)
Capital contributions	474,821
Interest paid on debt	<u>(11,537)</u>

**NET CASH (USED) BY CAPITAL AND
RELATED FINANCING ACTIVITIES**

(48,373)

**CASH PROVIDED(USED) BY
INVESTING ACTIVITIES**

Increase in certificate of deposit	(329)
Interest received	<u>398</u>

**NET CASH PROVIDED BY
INVESTING ACTIVITIES**

70

NET (DECREASE) IN CASH

(7,814)

**CASH AND CASH EQUIVALENTS
AT THE BEGINNING OF THE YEAR**

25,238

**CASH AND CASH EQUIVALENTS
AT THE END OF THE YEAR**

\$ 17,423

CITY OF LUTTRELL, TENNESSEE

STATEMENT OF CASH FLOWS

SEWER FUND

(continued)

Year Ended June 30, 2015

**RECONCILIATION OF (LOSS) FROM OPERATIONS TO
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES**

(Loss) from operations		\$ (157,737)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:		
Depreciation	\$ 189,148	
(Increase) in:		
Accounts receivable	(8,567)	
Deferred outflow related to pensions	(3,965)	
Increase(decrease) in:		
Accounts payable	99	
Due to general fund	19,590	
Customer deposits	(45)	
Accrued payroll taxes	<u>1,966</u>	<u>198,226</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		<u>\$ 40,489</u>

See the accompanying notes to the financial statements.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE A - DESCRIPTION OF ORGANIZATION

City of Luttrell, Tennessee (the City) was originally incorporated under the provisions of Chapter 466, Private Acts of 1925. This charter was superseded in its entirety by Chapter No. 94, Private Acts of 1965. Chapter No. 94, Private Acts of 1965 was subsequently amended by Chapter No. 181, Private Acts of 1984 and Chapter No. 68, Private Acts of 1991. The City operates under a City Council form of government and provides the following services as authorized by its charter: highways and streets, sewer utilities, public improvements, planning and zoning, and general administrative services.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City, for financial reporting purposes, includes all funds relevant to the operations of City of Luttrell, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws, or separate and distinct units of government apart from the City. As of June 30, 2015 and for the year then ended, the City had no discretely presented component units which were required to be included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the City. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

All trade receivables are shown net of an allowance for uncollectible accounts.

The City reports the following major governmental fund:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

The *sewer fund* accounts for the activities of the sewer department, which operates and maintains a sewer collection system for residents and businesses on a user charge basis.

All activities necessary to provide these services are accounted for in such a manner as to show profit or loss similar to comparable private enterprises.

The City had no internal service funds or fiduciary funds as of or for the year ended June 30, 2015.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Proprietary fund financial statements include a statement of net position, a statement of revenue, expenses and change in net position and a statement of cash flows for each major proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses and change in net position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund is charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net position groups:

Net Investment in Capital Assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Net investment in capital assets at June 30, 2015 has been calculated as follows:

Governmental Activities:

Capital assets	\$ 1,431,917
Accumulated depreciation	(380,913)
Principal balance on long-term debt	<u>(359,798)</u>
	<u>\$ 691,206</u>

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Business-Type Activities:

Capital assets	\$ 10,050,241
Accumulated depreciation	(4,284,632)
Principal balance on bond	<u>(192,611)</u>
	<u>\$ 5,572,999</u>

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the City pursuant to those stipulations or that expire by the passage of time. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City had no restricted net position at June 30, 2015.

Unrestricted

The category includes net position that are not subject to externally imposed stipulations and that do not meet the definition of "restricted" or "net investment in capital assets". Unrestricted net position may be designated for specific purposes by action of management or the Mayor and City Council or may otherwise be limited by contractual agreements with outside parties.

Fund Balances

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable Fund Balance

Fund balances reported as nonspendable in the accompanying financial statements represent amounts paid for prepaid expenses or inventory.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Restricted Fund Balance

Fund balances reported as restricted in the accompanying financial statements represent amounts restricted to specific purposes by externally imposed restrictions or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balances reported as committed in the accompanying financial statements represent amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The Mayor and City Council commits resources for specific purposes by passing ordinances.

Assigned Fund Balance

Fund balances reported as assigned in the accompanying financial statements represent amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by the Mayor and City Council.

Unassigned Fund Balance

In accordance with generally accepted accounting principles, the general fund is the only fund of the City that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the general fund.

The City would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Budgets and Budgetary Accounting

The City Council is required to adopt, by ordinance, total budget appropriations by line item for all funds. The City's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP). All budget amendments must be approved by the City Council. Unused appropriations lapse at the end of the year.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns on the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts receivable is provided based upon historical trends. Allowance for uncollectible accounts at June 30, 2015 was as follows:

Sewer fund	\$ 125,000
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Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE C - CASH AND CASH EQUIVALENTS

Investments that have original maturities of three months or less at the date of purchase are classified as cash equivalents. Cash represents money on deposit in various banks. Cash and investments are stated at cost which approximates market value. Carrying amounts at June 30, 2015 are as follows:

	Governmental <u>Fund</u>	Proprietary <u>Fund</u>	<u>Totals</u>
Cash on hand	\$ 0	\$ 63	\$ 63
Checking and savings accounts	105	17,360	17,465
Certificates of deposit	<u>0</u>	<u>94,226</u>	<u>94,226</u>
Total	<u>\$ 105</u>	<u>\$ 111,649</u>	<u>\$ 111,754</u>

State of Tennessee law authorizes the City to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (the LGIP). The LGIP contains investments in certificates of deposit, U.S. Treasury securities and repurchases agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

All cash balances at June 30, 2015 were entirely insured through the Federal Deposit Insurance Corporation.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>Balance 7/1/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/15</u>
Governmental Activities:				
<u>Capital assets not being depreciated</u>				
Land	\$ 93,966	\$ 0	\$ 0	\$ 93,966
Construction in progress	<u>6,000</u>	<u>252,115</u>	<u>0</u>	<u>258,115</u>
	99,966	252,115	0	352,082
<u>Capital assets being depreciated</u>				
Equipment	145,822	0	0	145,822
Structures and improvements	<u>934,013</u>	<u>0</u>	<u>0</u>	<u>934,013</u>
	1,079,835	0	0	1,079,835
<u>Accumulated depreciation</u>				
Equipment	(117,704)	(6,655)	0	(124,359)
Structures and improvements	<u>(227,269)</u>	<u>(29,285)</u>	<u>0</u>	<u>(256,554)</u>
	<u>(344,973)</u>	<u>(35,940)</u>	<u>0</u>	<u>(380,913)</u>
	<u>\$ 834,828</u>	<u>\$ 216,175</u>	<u>\$ 0</u>	<u>\$ 1,051,004</u>

Depreciation expense is charged to the various governmental functions as follows:

General government	\$ 6,079
Highways and streets	1,657
Public welfare	<u>28,203</u>
	<u>\$ 35,940</u>

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

	Balance <u>7/1/14</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>6/30/15</u>
Business-Type Activities:				
Sewer Fund				
<u>Capital assets not being depreciated</u>				
Land and land rights	\$ 87,989	\$ 0	\$ 0	\$ 87,989
Construction in process	<u>14,500</u>	<u>497,885</u>	<u>(512,385)</u>	<u>0</u>
	102,489	497,885	(512,385)	87,989
<u>Capital assets being depreciated</u>				
Collection system	5,178,419	1,933	0	5,180,351
Equipment	147,590	0	0	147,590
Other plant assets	1,116,953	0	0	1,116,953
Treatment plant	2,911,609	512,385	0	3,423,994
Structures and improvement	4,925	0	0	4,925
Vehicles	<u>88,439</u>	<u>0</u>	<u>0</u>	<u>88,439</u>
	9,447,935	514,318	0	9,962,252
<u>Accumulated depreciation</u>				
Collection system	(2,384,302)	(93,535)	0	(2,477,837)
Equipment	(130,543)	(6,897)	0	(137,440)
Other plant assets	(560,459)	(25,538)	0	(585,997)
Treatment plant	(976,910)	(52,548)	0	(1,029,458)
Structures and improvement	(4,925)	0	0	(4,925)
Vehicles	<u>(38,345)</u>	<u>(10,630)</u>	<u>0</u>	<u>(48,975)</u>
	(4,095,484)	(189,148)	0	(4,284,632)
	<u>\$ 5,454,939</u>	<u>\$ 823,055</u>	<u>\$ (512,385)</u>	<u>\$ 5,765,609</u>

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE E - PENSION PLAN

Plan Description

Employees of the City are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than .5%. A 1% COLA is granted if the CPI change is between .5% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Employees Covered by Benefit Terms

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	5
Active employee	<u>6</u>
	<u>13</u>

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for the City were \$5,069 based on a rate of 6.37%. By law, employer contributions are required to be paid. The TCRS may intercept the City's state shared taxes if required contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

The City's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of assets classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the City will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability(Asset) (a) - (b)
Changes for the year ended June 30, 2014:			
Increase(decrease)			
Service cost	\$ 8,831	\$ 0	\$ 8,831
Interest	16,314	0	16,314
Differences between expected and actual experience	(24,323)	0	(24,323)
Contributions - employer	0	6,065	(6,065)
Contributions - employees	0	4,731	(4,731)
Net investment income	0	30,064	(30,064)
Benefit payments, including refunds of employee contributions	(5,070)	(5,070)	0
Administrative expense	0	(211)	211
Net changes for the year ended June 30, 2014	(4,248)	35,579	(39,827)
Balance at June 30, 2013	211,225	178,595	32,630
Balance at June 30, 2014	\$ 206,977	\$ 214,174	\$ (7,197)

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.5%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City of Luttrell, Tennessee's net pension liability(asset)	\$ 22,711	\$ (7,197)	\$ (31,948)

Pension Income

For the year ended June 30, 2015, the City recognized in the government-wide statement of activities pension income in the amount of \$2,350.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 18,242
Net difference between projected and actual earnings on pension plan investments	0	13,170
Contributions subsequent to the measurement date of June 30, 2014	<u>5,069</u>	<u>(not applicable)</u>
Total	<u>\$ 5,069</u>	<u>\$ 31,412</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (expense) to net pension liability (asset) in the following measurement period.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2016	\$ (9,374)
2017	(9,374)
2018	(9,374)
2019	(3,293)
2020	0
Thereafter	0

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015 the City reported a payable of \$2,322 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE F - LONG-TERM DEBT

Long-term debt at June 30, 2015 consisted of the following:

Governmental Activities:

General Obligation Capital Outlay Note, 2004 due in semiannual installments of \$11,769 including interest of 5.85% until maturity in 2018	\$ 53,322
General Obligation Capital Outlay Note, 2011 due in monthly installments of \$1,747 including interest of 5.75% until maturity in 2016	11,916

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

General Obligation Capital Outlay Note, 2014 due in annual installments of \$22,547 including interest of 4.99% until maturity in 2027	200,000
Street Repaving Capital Outlay Note, 2014 due in monthly installments of \$1,663 including interest of 2.09% until maturity in 2018	<u>94,560</u>
	359,798
Less current maturities	<u>(59,905)</u>
	<u>\$ 299,893</u>

Business-Type Activities:

Sewer Revenue Bond, Series 1992 due in monthly installments of \$1,948, including interest of 5.75% until maturity in 2027	\$ 192,611
Less current maturities	<u>(12,630)</u>
	<u>\$ 179,981</u>

Maturities of long-term debt as of June 30, 2015 are as follows:

Governmental Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 59,905	\$ 14,905	\$ 74,810
2017	56,965	12,589	69,554
2018	82,570	10,352	92,922
2019	14,545	8,002	22,547
2020	15,291	7,256	22,547
2021	16,034	6,513	22,547
2022	16,834	5,713	22,547
2023	17,674	4,873	22,547

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Governmental Activities (continued):

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2024	18,567	3,980	22,547
2025	19,482	3,064	22,547
2026	20,455	2,092	22,547
2027	<u>21,475</u>	<u>1,072</u>	<u>22,547</u>
	<u>\$ 359,798</u>	<u>\$ 80,411</u>	<u>\$ 440,209</u>

Business-Type Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 12,630	\$ 10,746	\$ 23,376
2017	13,375	10,001	23,376
2018	14,165	9,211	23,376
2019	15,001	8,375	23,376
2020	15,887	7,489	23,376
2021	16,825	6,551	23,376
2022	17,819	5,557	23,376
2023	18,871	4,505	23,376
2024	19,985	3,391	23,376
2025	21,165	2,211	23,376
2026	22,414	962	23,376
2027	<u>4,474</u>	<u>37</u>	<u>4,511</u>
	<u>\$ 192,611</u>	<u>\$ 69,036</u>	<u>\$ 261,647</u>

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Changes in long-term debt for the year ended June 30, 2015 were as follows:

	<u>Balance 7/1/14</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/15</u>	<u>Amounts Due Within One Year</u>
<u>Governmental Activities:</u>					
Capital Outlay Note, 2004	\$ 67,867	\$ 0	\$ (14,545)	\$ 53,322	\$ 19,502
Capital Outlay Note, 2006	16,623	0	(16,623)	0	0
Capital Outlay Note, 2011	28,355	0	(16,439)	11,916	8,596
Capital Outlay Note, 2014	0	200,000	0	200,000	12,594
Capital Outlay Note, 2014	<u>0</u>	<u>94,560</u>	<u>0</u>	<u>94,560</u>	<u>18,039</u>
	<u>\$ 112,845</u>	<u>\$ 294,560</u>	<u>\$ (47,607)</u>	<u>\$ 359,798</u>	<u>\$ 59,905</u>

Interest costs incurred by governmental activities for the year ended June 30, 2015 were \$7,274, all of which were charged to expense.

	<u>Balance 7/1/14</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/15</u>	<u>Amounts Due Within One Year</u>
<u>Business-Type Activities:</u>					
Sewer Revenue Bond, Series 1992	<u>\$ 204,450</u>	<u>\$ 0</u>	<u>\$ (11,839)</u>	<u>\$ 192,611</u>	<u>\$ 12,630</u>

Interest costs incurred by business-type activities for the year ended June 30, 2015 were \$11,537, all of which were charged to expense.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE G - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2015, resulting from short-term advances for shared costs, were as follows:

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
General Fund	\$ 0	\$ 77,141
Business-Type Activities:		
Sewer Fund	<u>77,141</u>	<u>0</u>
	<u>\$ 77,141</u>	<u>\$ 77,141</u>

NOTE H - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Tennessee Municipal League Risk Management Pool (the Pool) and pays an annual premium to the Pool for its general liability coverage, workers' compensation, destruction of property and employee dishonesty. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

The pooling agreement allows the Pool to make additional assessments or refund surplus revenue to the City. It is not possible to estimate the amount of such additional assessments or refunds, if any.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE I - CHANGES IN RESTRICTED NET POSITION

	<u>State Street Aid</u>
Balance, July 1, 2014	\$ 0
Received from State of Tennessee	30,388
Current expenditures	(148,988)
Expended from unrestricted funds	<u>118,600</u>
Balance, June 30, 2015	<u>\$ 0</u>

NOTE J - COMMITMENTS

The City entered into contracts totaling \$512,480 related to sewer system improvements; \$512,480 has been expended as of June 30, 2015. The City entered into a contract with a construction company during the year ended June 30, 2015 in the amount of \$281,827 for the construction of the new city hall building; \$230,030 has been expended as of June 30, 2015. The City entered into a contract with an architect during the year ended June 30, 2015 in the amount of \$6,500 for the architecture services related to the construction of the new city hall building; \$5,500 has been expended as of June 30, 2015.

CITY OF LUTTRELL, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE K – RESTATEMENT

During the year ended June 30, 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as an asset or liability and to more comprehensively and comparably measure the annual costs of pension benefits. Net position as of June 30, 2014 has been restated for the implementation of GASB Statement No. 68. As a result, the effect on the year ended June 30, 2014 was as follows:

Governmental Activities:

Balance at June 30, 2014, as originally reported	\$ 908,497
Net pension liability, measurement date as of July 30, 2014	(7,108)
Deferred outflows for contributions made during the year ended June 30, 2014	<u>1,454</u>
Balance at June 30, 2014, restated	<u>\$ 902,844</u>

Business-type Activities:

Balance at June 30, 2014, as originally reported	\$ 5,334,707
Net pension liability, measurement date as of July 30, 2014	(25,522)
Deferred outflows for contributions made during the year ended June 30, 2014	<u>4,611</u>
Balance at June 30, 2014, restated	<u>\$ 5,313,795</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LUTTRELL, TENNESSEE

CHANGES IN NET PENSION LIABILITY(ASSET)

June 30, 2015

	Measurement Date at <u>June 30, 2014</u>
<u>Total pension liability</u>	
Service cost	\$ 8,831
Interest	16,314
Change in benefit terms	0
Differences between actual and expected experience	(24,323)
Change of assumptions	0
Benefit payments, including refunds of employee contributions	<u>(5,070)</u>
Net change in total pension liability	(4,248)
Total pension liability-beginning July 1, 2013	<u>211,225</u>
Total pension liability-ending June 30, 2014 (a)	<u>\$ 206,977</u>
 <u>Plan fiduciary net position</u>	
Contributions-employer	\$ 6,065
Contributions-employee	4,731
Net investment income	30,064
Benefit payments, including refunds of employee contributions	(5,070)
Administrative expense	<u>(211)</u>
Net change in plan fiduciary net position	35,579
Plan fiduciary net position-beginning July 1, 2013	<u>178,595</u>
Plan fiduciary net position-ending June 30, 2014 (b)	<u>\$ 214,174</u>
 Net pension liability (asset)-ending (a)-(b)	 <u>\$ (7,197)</u>
 Plan fiduciary net position as a percentage of total net pension liability	 103.48%
 Covered - employee payroll	 \$ 94,619
 Net pension liability(asset) as a percentage of covered-employee payroll	 7.61%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See the accompanying independent accountants' audit report.

CITY OF LUTTRELL, TENNESSEE

PENSION CONTRIBUTIONS

June 30, 2015

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 5,069	\$ 6,065
Contributions in relation to the actuarially determined contribution	<u>(5,069)</u>	<u>(6,065)</u>
Contribution deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 79,585	\$ 94,619
Contributions as a percentage of covered employee payroll	6.37%	6.41%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future fiscal years until 10 years of information is available.

See the accompanying independent accountants' audit report.

CITY OF LUTTRELL, TENNESSEE

NOTES TO PENSION CONTRIBUTIONS

June 30, 2015

Valuation Date

Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Actuarial Cost Method	Frozen initial liability
Amortization Method	Level dollar, closed (not to exceed 20 years)
Remaining Amortization Period	13 years
Asset Valuation	10-year smoothed within a 20% corridor to market value
Inflation	3.0%
Salary Increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%
Investment Rate of Return	7.50%, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5%

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

CITY OF LUTTRELL, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

June 30, 2015

Governmental Activities:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
General Obligation Capital Outlay Note, 2004			
Year Ending June 30,			
2016	\$ 20,676	\$ 2,863	\$ 23,539
2017	21,915	1,624	23,539
2018	<u>10,731</u>	<u>628</u>	<u>11,359</u>
	<u>\$ 53,322</u>	<u>\$ 5,115</u>	<u>\$ 58,438</u>
General Obligation Capital Outlay Note, 2011			
Year Ending June 30,			
2016	\$ 8,596	\$ 169	\$ 8,765
2017	<u>3,320</u>	<u>191</u>	<u>3,511</u>
	<u>\$ 11,916</u>	<u>\$ 360</u>	<u>\$ 12,276</u>
General Obligation Capital Outlay Note, 2014			
Year Ending June 30,			
2016	\$ 12,594	\$ 9,953	\$ 22,547
2017	13,195	9,352	22,547
2018	13,854	8,693	22,547
2019	14,545	8,002	22,547
2020	15,291	7,256	22,547
2021	16,034	6,513	22,547
2022	16,834	5,713	22,547
2023	17,674	4,873	22,547
2024	18,567	3,980	22,547
2025	19,482	3,064	22,546
2026	20,455	2,092	22,547
2027	<u>21,475</u>	<u>1,072</u>	<u>22,547</u>
	<u>\$ 200,000</u>	<u>\$ 70,563</u>	<u>\$ 270,563</u>

CITY OF LUTTRELL, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2015

Governmental Activities (continued):

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Street Repaving Capital Outlay Note, 2014			
Year Ending June 30,			
2016	\$ 18,039	\$ 1,919	\$ 19,958
2017	18,535	1,423	19,958
2018	<u>57,986</u>	<u>1,032</u>	<u>59,018</u>
	<u>\$ 94,560</u>	<u>\$ 4,374</u>	<u>\$ 98,934</u>

Business-Type Activities:

Sewer Revenue Bond, Series 1992

Year Ending June 30,			
2016	\$ 12,630	\$ 10,746	\$ 23,376
2017	13,375	10,001	23,376
2018	14,165	9,211	23,376
2019	15,001	8,375	23,376
2020	15,887	7,489	23,376
2021	16,825	6,551	23,376
2022	17,819	5,557	23,376
2023	18,871	4,505	23,376
2024	19,985	3,391	23,376
2025	21,165	2,211	23,376
2026	22,414	962	23,376
2027	<u>4,475</u>	<u>37</u>	<u>4,512</u>
	<u>\$ 192,611</u>	<u>\$ 69,036</u>	<u>\$ 261,647</u>

See the accompanying independent accountants' audit report.

CITY OF LUTTRELL, TENNESSEE

**EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE**

June 30, 2015

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA #</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. Department of Housing and Urban Development/ Tennessee Department of Economic and Community Development	14.228	40275	\$ 474,821
<u>State Financial Assistance</u>			
The Tennessee Arts Commission	N/A	N/A	<u>800</u>
Total Federal Awards and State Financial Assistance			<u>\$ 475,621</u>

NOTE 1 - BASIS OF PRESENTATION

This schedule summarizes the expenditures of City of Luttrell, Tennessee under programs of the federal and state governments for the year ended June 30, 2015. The schedule is presented using the accrual basis of accounting.

See the accompanying independent accountants' audit report.

CITY OF LUTTRELL, TENNESSEE

UTILITY RATES AND METERED CUSTOMERS
SEWER FUND

June 30, 2015

All metered users:

First 2,000 gallons (minimum billing)	\$ 20.25
Over 2,000 gallons (per 1,000 gallons)	5.25

Number of metered customers	943
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Tap Fee:

Inside city limits	\$ 3,500.00
Outside city limits	3,800.00

See the accompanying independent accountants' audit report.

CITY OF LUTTRELL, TENNESSEE

PRINCIPAL OFFICIALS

June 30, 2015

Johnny Merritt, Mayor
Jody Smith, Vice-Mayor
Barry Corum, Council Member
Brad Griffey, Council Member
David Williams, Council Member
Lloyd Railey, Council Member
Rebecca Ailor, CMFO, City Recorder

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and City Council
City of Luttrell, Tennessee
Luttrell, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, the business-type activities and each major fund of City of Luttrell, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Luttrell, Tennessee's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Luttrell, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Luttrell, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Luttrell, Tennessee's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, recommendations and management responses, listed as item 2015-001 and 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Luttrell, Tennessee's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Luttrell, Tennessee's Responses to Findings

City of Luttrell, Tennessee's responses to the findings identified in our audit is described in the accompanying schedule of findings, recommendations and management responses. City of Luttrell, Tennessee's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The script is cursive and fluid, with the first letters of "Mitchell", "Emert", and "Hill" being capitalized and prominent.

December 17, 2015

CITY OF LUTTRELL, TENNESSEE

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Year Ended June 30, 2015

Finding Number 2015-001 - Segregation of duties (uncorrected from prior year)

Finding: Due to the limited number of personnel available, a lack of segregation of duties exists in the areas of preparing bank deposits, posting accounting records, preparing bank reconciliations and making disbursements.

Recommendation: Accounting duties should be divided among existing personnel and council members to ensure proper segregation of duties. The City Council should consider the cost and benefit of adding additional staff members to ensure proper segregation of duties exist.

Management Response: The City of Luttrell does agree with your finding. Due to our revenue and amount of work to be done, hiring an additional person is not economically feasible.

Finding Number 2015-002 - Cash transfers (uncorrected from prior year)

Finding: There were many instances noted which transfers of funds were recorded between cash accounts on the general ledger but were not actually transferred between the bank accounts. This resulted in large discrepancies between the cash amounts recorded on the general ledger and the actual amount of cash in each bank account. We proposed audit adjustments for these differences; management has accepted and recorded these adjustments as of June 30, 2015.

Recommendation: City Council should ensure all cash transfers recorded on the general ledger are being transferred between bank accounts. City Council should also review bank reconciliations for large reconciling items which may cause a large discrepancy between the amount of cash recorded on the general ledger and the amount of cash in the bank.

Management Response: The City of Luttrell does agree with your finding. We will ensure that all transfers of funds recorded on the general ledger are actually transferred between the bank accounts. Additionally, to provide proper financial oversight, the Mayor and City Council will be provided copies of bank statements and bank reconciliations each month.

CITY OF LUTTRELL, TENNESSEE

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2015-001	Segregation of duties (original finding #2013-001)	Repeated
2015-002	Cash transfers (original finding #2014-001)	Repeated